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15 August 1951

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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OSD, DOS and DPMO review(s) completed.

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SECTION 1 (SOVIET)

1. USSR. Comment on Soviet participation in the Japanese peace treaty conference: The Soviet decision to attend the Japanese peace conference is an indication of concern over Western plans to proceed without the USSR if necessary. It is also a sign of Soviet inability to hinder the conclusion of the treaty and to prevent widespread adherence to it. The conference will offer the USSR the opportunity to exploit objections to the joint US-UK sponsored draft held mainly by Far Eastern nations over questions such as reparations, rearmament and Chinese representation.

Past Soviet criticisms of the US draft treaty have emphasized the absence of guarantees against a resurgence of Japanese aggression, including future Japanese adherence to regional security arrangements, and the treaty's implicit sanction of the retention of US troops and bases in Japan. The USSR has also charged that Japan is being prevented from establishing normal economic relations with neighboring states and developing its peacetime economy.

Moreover, the USSR has objected to US procedure, maintaining that the treaty should be prepared by the Big Four and that a multilateral conference should then be held to consider "available treaty drafts." On 20 July, Gromyko asked Ambassador Kirk whether comments on the US draft were being requested of the Soviet Government, which probably fore-shadows Soviet circulation of draft proposals for conference consideration.

2. Soviet Mission in Japan uninformed regarding USSR attendance at treaty conference: According to Tokyo Central News, a spokesman for the Soviet Mission in Japan declined comment on USSR attendance at San Francisco conference saying that he had not received any official notice from Moscow and had heard the news only over the Japanese radio. [REDACTED]

Comment: It is not unusual for Soviet officials abroad to be uninformed regarding high-level policy, with the result that often they are caught unaware by moves such as this.

3. New USSR Railroad Journal published: The first number of a new industrial-technical journal Railway Construction has recently appeared in Moscow. Published by the Ministry of Transport, its main task is said to be to spread knowledge of advanced methods of railway construction, to recount the experiences of individual Stakhanovite builders, and to consider questions concerning mechanization and the formulation

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25X1 of new projects. The first issue contains articles on the "successes" of railway construction in the USSR, and reportedly devotes considerable space to the problems of railway transport connected with the construction of the "gigantic" hydro-electric power stations and irrigation canals. [REDACTED]

Comment: The appearance of this journal is of interest because of the considerable stress that has recently been placed in the Soviet press on the need for railroad improvements. It is possible that the USSR transportation system is presently overburdened by shipments of various materials from factories to the building sites of the grandiose post-war construction projects.

4. EASTERN EUROPE. CZECHOSLOVAKIA. Further harassment of US mission in Prague: The Czechoslovak Government has recently refused to clear some unaccompanied US diplomatic pouches unless they were opened, Ambassador Briggs reports from Prague. The US Embassy has refused to allow any of its pouches to be opened. Briggs states that similar Czechoslovak action has been taken against the diplomatic pouches of other Western countries. A meeting of Foreign Affairs Ministry personnel responsible for customs matters was scheduled for 13 August to establish future procedures for handling diplomatic pouches. Ambassador Briggs will recommend reciprocal treatment as soon as Czechoslovak intentions become clear. [REDACTED]

25X1 Comment: The inviolability of diplomatic pouches has only the force of an internationally respected custom and courtesy. Brazil recently opened two Czechoslovak pouches to intercept smuggled goods so that this move on Prague's part may be a form of retaliation or a warning to other Western powers not to follow suit. The Italian Government recently closed its Consulate General in Bratislava over a dispute involving a Czechoslovak demand to open the Consulate's diplomatic pouches.

5. HUNGARY. Government demands end to Yugoslav border provocations: The Hungarian Government on 13 August delivered a note to the Yugoslav Legation in Budapest demanding that "organized and systematic frontier provocations cease without delay." The note warned the Yugoslav Government that responsibility for the consequences of border violations by Yugoslavia rested exclusively on the Yugoslav Government. Attempts to infiltrate spies into Hungary, the kidnaping of Hungarian citizens, and attacks on Hungarian territory were alleged to have become more and more frequent. The note stated that the aim of these frontier violations was to disturb the peace in Hungarian territory with violent and aggressive acts. It accused the Yugoslav Government of hostile intentions toward Hungary. [REDACTED]

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Comment: This is the 35th published note which the Hungarian Government has sent to Yugoslavia regarding frontier violations since the Tito-Cominform break. It is the first, however, which has demanded a cessation of the provocations. A Rumanian note on 29 June protested frontier violations by Yugoslavia and also demanded that Yugoslavia "take the necessary steps to prevent the occurrence of further provocations." The Hungarian note followed by a few days Yugoslav notes to Hungary and Rumania protesting Cominform-instigated border incidents [REDACTED]

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SECTION 2 (EASTERN)

1. INDIA. Comment on Nehru's possible resignation as Prime Minister of India:
The first oblique public reference to the possibility that Nehru might resign his post as Prime Minister has appeared in the Indian press. Significantly, the suggestion is attributed to Congress Party President Tandon, with whom Nehru is currently at swords' points.

On 12 August, the newspaper Times of India reported Tandon's view that Nehru should ease the current party crisis by taking over both the Congress presidency and the Prime Ministership or, as an alternative, that he should assume the party presidency and resign as Prime Minister in favor of someone commanding his "loyalty and respect."

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4. INDONESIA. Government believes recent lawlessness was Communist-inspired: A cabinet member told US Ambassador Cochran that the Indonesian Attorney General has evidence that the scattered incidents during the week-end of 5 August--including the attack on Tandjong Priok--were Communist-inspired and coordinated. He said the government had already made many arrests and would make more if circumstances warranted. The official also stated that an effort would be made to clean the Communists out of the Ministry of Labor.

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Meanwhile, police and security forces arrested several hundred political suspects in Medan (North Sumatra). [redacted] the prisoners are chiefly Chinese but include several Dutch nationals and most of the local Indonesian Communist Party leaders. The majority will be released after 17 August (Indonesian independence day), a date for which the Communists have planned widespread demonstrations.

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Comment: Indonesian officials have in the past defended the government for taking no action against the Communists with the argument that the government had to await an overt act by the Communists of sufficient importance to justify a repressive policy.

Medan is the only city known to have undergone a wide "security sweep". It is not clear whether this was specifically ordered by the central government or whether it was undertaken on the initiative of Col. Simbolon, the efficient military commander in North Sumatra who is generally credited with maintaining the most secure area in Indonesia.

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6. CHINA. Hong Kong restricts trade with Macao: Hong Kong is now requesting written assurances from Macao that strategic items imported from Hong Kong will not be transshipped. The US Consul General, however, points out that no credence can be given any assurances from Macao officials. Petroleum, tires, metals and other strategic goods continue to be shipped openly from the Portuguese colony to China, and the Communists have declared that 100 trucks will be used to move goods over the new highway between Macao and Canton. [REDACTED]

Comment: Hong Kong measures to restrict legitimate trade with Macao will not curtail the smuggling traffic. It is this traffic, rather than the legal trade, which has become the principal channel for petroleum and other strategic goods moving from Hong Kong through Macao to the Communist mainland. In the absence of more vigorous anti-smuggling enforcement in Hong Kong, Macao will continue an important transshipment point for strategic goods moving to Communist China.

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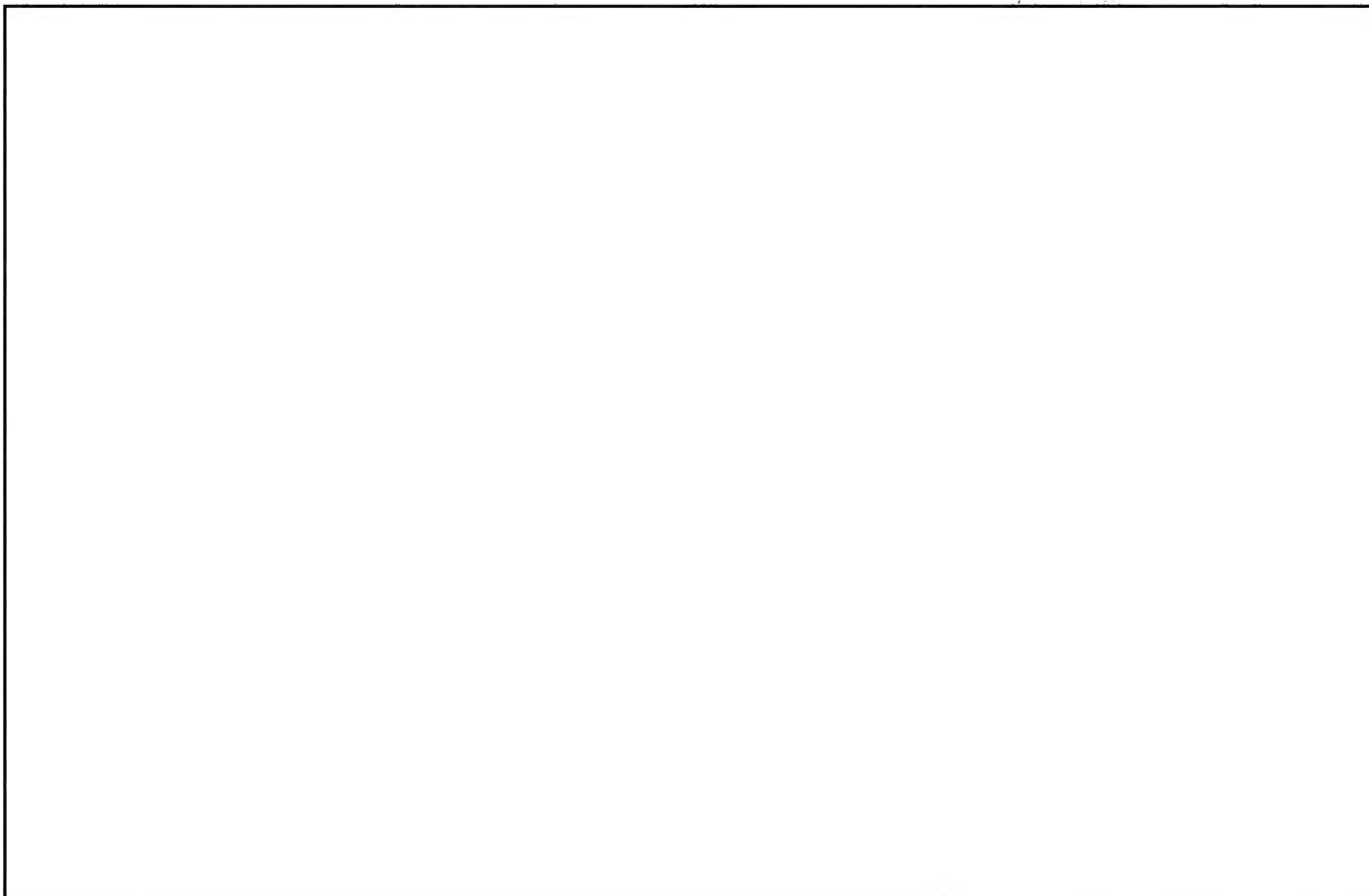
8. American POWs reported to be in Shanghai: [REDACTED]
[REDACTED] 78 American POWs were held in a Shanghai camp in mid-July.
[REDACTED]

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Comments: Several thousand US POW's are believed to be in Chinese Communist hands. POW camps have been reported at Canton, Hankow and now Shanghai in China, and in Mukden and Liaoyang in Manchuria. None of these reports has been confirmed.



11. KOREA. North Koreans to use civilians in POW returns: [redacted]

[redacted] North Korean authorities are gathering refugees and ordinary citizens together in rear area camps. These people reportedly will be designated prisoners of war and used in any exchange of prisoners growing out of the Kaesong cease-fire talks. [redacted]

Comment: The great disparity between the large number of prisoners of war held by the UN forces and the small number held by the Communist forces may have induced the North Koreans to resort to such a subterfuge; however, this activity is unconfirmed.

12. ROK military court seeks former Defense Minister as a witness: A ROK military court, currently investigating members of the army who were in-

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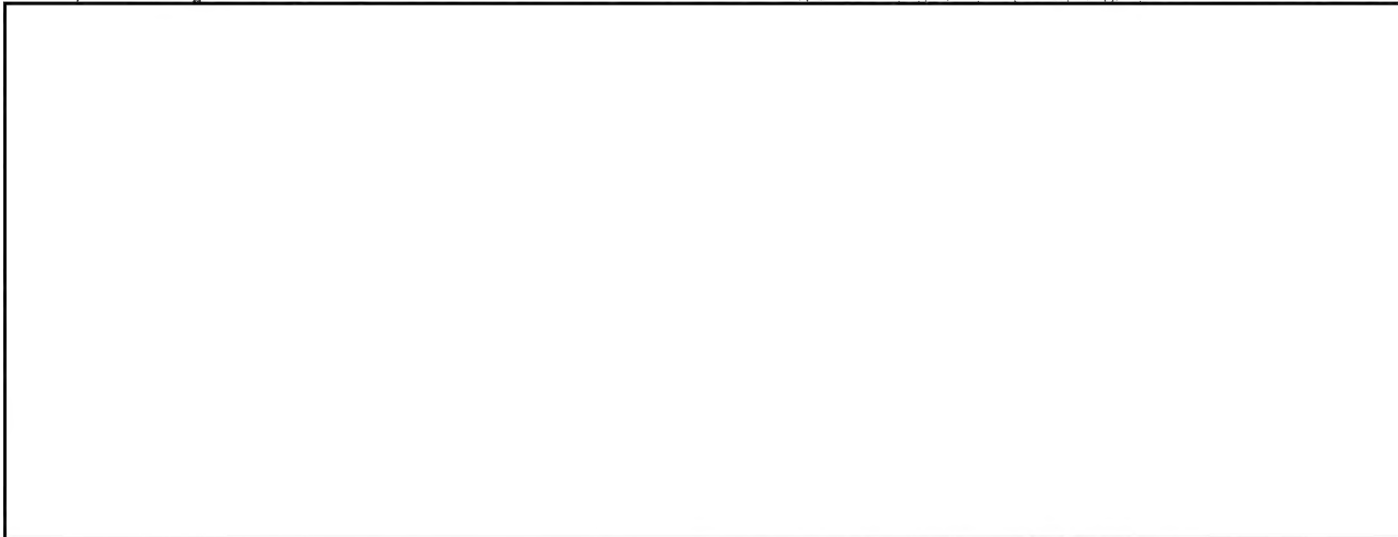
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volved in the "National Guard Scandal" (misappropriation of funds designated for draftee training and subsistence) has requested the Ministry of Foreign Affairs to recall as a witness Sihn Sung Mo, ex-Minister of Defense and present Ambassador to Japan.

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Comment: The expose of the "National Guard Scandal" in early April caused Rhee to replace the three responsible cabinet officers—including Sihn, who was then Minister of Defense.

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SECTION 3 (WESTERN)

1. GERMANY. New treason law would restrict Allied information in Germany:
US High Commission in Frankfurt points out that the new German treason law is much broader than similar laws in other countries and will have a seriously adverse effect on German-Allied relations if it is signed and put into operation. Consultations with German legal officials failed to dispel the fears of the High Commission that the law may be reasonably interpreted:

- (a) to prevent the volunteering of information to the Occupation Powers; especially to Allied intelligence agencies; and
- (b) to permit the Allies to have access to information only in reserved fields.

The Germans ignored an order to submit the law for the consideration of the Allied High Commission; they have, however, obeyed a further order to refrain from signing the law until consultations can take place.

The High Commission is reluctant to disapprove the law, as this would mean delaying anti-Communist legislation. Instead, it is considering passage of a High Commission law to give full protection to communications and relations between the Germans and the Allies.

Comment: The Germans want, as much as possible, to have the full range of powers of an independent nation when the new contractual arrangements go into effect. They intend to hold down special Allied occupation rights to a minimum, and are particularly concerned to maintain exclusive control over "state secrets".

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2. Minor coalition parties object to Adenauer's "dual economic policy":
US representatives in Bonn point to potentially serious strains in the German coalition as a result of conflicts over economic matters. Vice Chancellor Bluecher (Free Democrat) and Muehlenfeld, the German Party leader in the Bundestag, representing the two minor parties in the Bonn government, held a meeting on 10 August to consider their position on current economic policy developments. Among their reported views, which they telegraphed to Chancellor Adenauer (on vacation in Switzerland) are these:

- (a) rejection of a "dual economy policy", i.e., one policy framed by the coalition as a whole, and another determined in Adenauer's personal negotiations, especially with the German Federation of Trade Unions; and

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- (b) skepticism over the way in which the Schuman Plan would operate, if the latest decision of the Ruhr Authority on the German coal allocation is an example.

Bluecher and Muehlenfeld did not openly threaten to withdraw their parties' support of the Schuman Plan, but stated that the IAR decision "endangered its ratification". [REDACTED]

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Comment: This telegram is evidently intended to warn Adenauer away from a liberal view in his present negotiations with the Trade Union Federation by hinting that such a policy would threaten ratification of the Schuman Plan. The minor coalition parties, largely representing industry, still feel the sting of Adenauer's support of greatly extended rights for labor last spring. Furthermore, Bluecher is fresh from defeat at the hands of the Ruhr Authority, where he was unsuccessful in obtaining a reduction of Germany's coal export quota.

In view of the furor which the coal controversy has provoked in Germany, Adenauer will be forced to take a strong line in defense of the German position, prejudicing Allied hopes for a quick agreement on a German contribution to Western defense.

3. FRANCE. Paris is reluctant to suspend Czech overflights: The French Foreign Office has informed the US Embassy that France is reluctant to suspend Czech overflights at this time. The French claim that they have exhausted available political sanctions against the Czechs, and obviously feel that any economic sanctions would hurt France more than the desired political gains would warrant. [REDACTED]

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Comment: The US has proposed the suspension of overflight privileges in Western Germany to planes belonging to the Czechoslovak National Airline in order to bring pressure to bear on Prague to release AP correspondent William Oatis. Great Britain has agreed to recommend this course of action to France, Belgium, and the Netherlands. The UK, however, remains convinced that, rather than an unexplained suspension advocated by the US, a definite connection should be announced relating the release of Oatis to the reinstatement of overflight privileges. The Belgian Ambassador in Prague has heartily endorsed the idea, while the Netherlands Foreign Minister has admitted that the Dutch airline would lose little by canceling its service into Prague.

4. AUSTRIA. Czech trade delegation exerts pressure on Austrians for strategic materials: The Czech delegation now negotiating an Austro-Czech trade agreement in Vienna is demanding large concessions from the Austrians in strategic materials. The Czechs are primarily interested in heavy machinery,

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pig iron, steel, and ball bearings, and, are threatening to cut off Czech coal and sugar unless their terms and conditions are met. It is alleged that the Austrian commission has consented to the licensing of \$1,600,000 worth of heavy machinery exports to the Czechs. [REDACTED]

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Comment: Following similar tactics employed by the Poles to obtain concessions from Austrian exporters, the Czech demands may indicate that the Eastern satellites are increasingly embarrassed by declining East-West trade. However, the pleas of the Austrian negotiators to the US Legation for assistance indicate the vulnerability of the Austrian economy to this kind of economic warfare. Austria lacks sufficient foreign exchange to turn to the West for imports normally obtained from the East, a situation highlighted by Austria's rapid exhaustion of EPU credits this year.

Furthermore, pending Congressional action on the Foreign Aid bill, the US Legation in Vienna is reluctant to make commitments to the Austrian Government for additional aid. Austria is therefore considering the possibility of agreeing to long delivery dates for a small number of embargo types of ball bearings, with the idea of ultimately refusing delivery.

5. NETHERLANDS. Presence of Amboinese in the Netherlands produces violence: The Netherlands military police quelled with difficulty the 6 August riots between Dutch civilians and the pro-Dutch Amboinese, interned at Middelburg and Eindhoven. The Amboinese who were brought back to the Netherlands to avoid offending the Indonesians are becoming very restive, and are daily becoming more of a problem for the Dutch Government. The outbreak of violence reflects the Dutch Army command's lack of progress in solving leadership and disciplinary problems incident in the recall of Indonesian veterans for refresher training. [REDACTED]

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Comment: The approximately 12,000 pro-Dutch Amboinese, including 3,000 soldiers, have created a grave housing and employment problem for the Dutch, and to date the government has made no determined efforts to find a solution. The problem is enhanced by the Dutch fear that utilization of the Amboinese for military purposes would raise serious objections on the part of the Indonesians, who regard the Amboinese as Indonesian citizens temporarily residing in the Netherlands.

6. ITALY. Controversial Budget Minister may head committee to direct Italy's economy: The Italian cabinet is discussing the establishment of a committee to direct the nation's economy through the use of controls over raw materials, foreign exchange, and government loans. Two Christian Democrats are the principal candidates for the top position on this committee. Pella appears to have the inner track; however, Campilli may be

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given important operating responsibilities under him. [REDACTED]

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Comment: Pella as Budget Minister in the new cabinet coordinates and directs Italian financial and economic policy. His duties include re-organizing the financial ministries, absorbing the general direction of the Treasury, and controlling important economic agencies. His appointment to head the projected committee would make him virtual czar of the country's economy. He has been criticized by both ECA and reformist members of his own (Christian Democratic) party for unwillingness to adopt a more aggressive investment program that would permit a fuller employment of Italy's productive capacity. His conservative financial policy could prevent expansion of the country's defense production to accord with NATO requirements.

7. SPAIN. Bumper wheat crop relieves pressure on government: Minister of Agriculture Rafael Cavestany has announced that Spain's 1951 crop prospects are the best in 50 years. Earlier, the Director of Agriculture had estimated this year's wheat production at more than 4 million metric tons. Informed government sources say that this total, an increase of 30 per cent over the 1950 harvest figure, should fill Spain's current rations requirements. Meanwhile, the National Wheat Service has been authorized to buy up surplus wheat at 70 per cent above the base price for forced delivery quotas.

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Comment: The record wheat harvest should ease public pressure on the government for improved rations of this staple food. The Spanish Government's frantic efforts in May and June to purchase foreign wheat reflected a fear that a reduction in the already meager wheat ration might become necessary, which would have further aggravated the grave internal situation existing in Spain at that time. By paying premium prices for this year's surplus wheat and by continuing to press for wheat credits under the US Export-Import Bank loans agreement, the Madrid government may be able to collect sufficient stocks to increase and improve the wheat ration without raising the quotas of forced deliveries.

8. SWEDEN. Foreign payment balance expected: US Embassy Stockholm reports that a balanced foreign payment account is "not unlikely" for the calendar year 1951, and the Finance Minister estimates that the export surplus may reach 150 million dollars. Increasing export prices and tapering-off of import prices have resulted in a continued improvement in terms of trade. Although the inflationary pressure has decreased, the government is continuing its restrictive economic policy. [REDACTED]

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Comment: Sweden's current economic situation has so improved that, at its own suggestion, ECA aid has been discontinued. However, a general

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rise in prices since the outbreak of the Korean war has forced upwards the price level and the cost of living. A temporary stabilization has been achieved; but the inflationary danger is by no means eliminated, and wages can be expected to increase when the new collective bargaining agreements are negotiated in November. Furthermore, the critical fuel situation [] poses a very definite threat to the over-all economic stability of the country as well as to its productive capacity.

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9. BRAZIL. Communist leader advises purge: An "unprecedented purge" in the outlawed Communist Party of Brazil has begun, according to the radio. In a published manifesto, Luis Carlos Prestes, the Communist leader, advised the party to purge "opportunists, adventurers, those weak in the Leninist and Stalinist ideology, the petty bourgeois, and intellectuals and students who have become separated from the fundamental ideology of the Communist Party". He stressed the need for a party purge which would "replace unsuitable leaders with legitimate and audacious workers". []

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Comment: Prestes, who is in hiding, has issued other manifestos calling for action on the part of the Communists. He may have been goaded into this action by reports of a movement among Communists and former Communists to form a Brazilian Communist Party along strict national lines, modeled after Titoism in Yugoslavia.

10. MEXICO. Loan for railroad rehabilitation will aid US defense: The Export-Import Bank has announced that it has granted two credits totaling \$56 million to Mexico for railway rehabilitation. The Bank has indicated in the past that transportation loans would form part of the program to increase production of strategic materials needed in the US defense program. []

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Comment: The Economic Attache of the US Embassy has called the Mexican railway system "deplorably inadequate". Much of the track is in bad condition and too light for modern traffic; shops are poorly equipped; motive power is insufficient; the car shortage is chronic; there is inadequate electric power on the important mountain section; and the system is burdened with excessive indebtedness. The effect on strategic production is indicated by a recent report from the US Consul at San Luis Potosi, who states that "a severe shortage of railway cars to haul ores and metals is greatly impeding production in this district. Asarco has several thousand tons of silver-lead ores at Taxco which they have been unable to bring to their smelter because of the shortage of cars."

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SECTION 2 (EASTERN)

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1. GREECE. Opposition to Papagos increases: Bouli Metaxas, the King's former adviser and the man considered directly responsible by Marshal Papagos for his rift with the King, has returned to Athens and is actively engaged in lining up opposition to Papagos. Metaxas has asserted that he is speaking for the King. [REDACTED]

Comment: Current estimates of probable election results indicate that Papagos probably will win, with Venezelos' Liberals and Plastiras' EPEK following in that order. However, both the palace and government are making an all out effort to weaken Papagos. Venezelos apparently is taking advantage of his position as prime minister to prevent full military support of Papagos, and the palace is now as deeply and energetically embroiled in the campaign as any parliamentary candidate.

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2. EGYPT. Egyptian Foreign Minister planning abrogation of treaty in October: The Egyptian Foreign Minister has informed the US Ambassador in Cairo that he does not intend to abrogate the Anglo-Egyptian Treaty during the present parliamentary session but to wait probably until October. The British Ambassador has been instructed to intimate to the Egyptian authorities — in case there is danger of an early explosion — that progress is being made on the study of a "new approach" to the defense of the Middle East. [REDACTED]

Comment: This delay in abrogating the treaty beyond the August date that the Foreign Minister had previously mentioned, would seem to reflect the influence of the King, who does not want to have the negotiations with the British broken off. The "new approach" being studied by Britain is probably the Middle East theater command proposal now under discussion in the Standing Group of NATO. This proposal envisages a multilateral defense setup for the Eastern Mediterranean under British command.

Britian evidently hopes that if it offers to include Egypt in a regional defense pact, Egypt may agree to foreign participation in Canal defenses.

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3. INDOCHINA. Pakistani and Indonesian views on Associated States' signature of Japanese peace treaty: According to the French Foreign Office, Pakistan, while not favoring participation of the Associated States at the Japanese peace treaty conference, would not oppose their inclusion if the US invited them. The Indonesian Government continues to oppose inclusion of the Associated States but does not say it would not attend if the Associated States were invited. [REDACTED]

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4. KOREA. ROK unification activities may be embarrassing North Korea: Ambassador Muccio feels that the strange failure of the North Korean propaganda mechanism to seize upon ROK anti-cease-fire and unification activities may be due to embarrassment. He observes that unification sentiment in North Korea is equally as strong as in the ROK, and that the volume of ROK activity has probably had the effect of "stealing the thunder from the North Koreans." [redacted]

5. ROK unification activities lagging: Ambassador Muccio reports that anti-cease-fire and pro-unification activity, while still at a high pitch, is "certainly not increasing...." Muccio observes that the subject "has taken on the aspects of an old story" to many Koreans and that the government is meeting increasing difficulty in arousing enthusiasm. He observes, in addition, that a "considerable number" of Koreans have become more realistic and are prepared "to accept de facto division...." [redacted]
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Comment: It has previously been observed that despite the intensity with which the ROK government was pushing the unification line, meetings held in support of this stand were not large and seemed to be disorganized.

6. JAPAN. Emperor to attest powers of Japanese delegates: The US Political Adviser in Tokyo reports that the Emperor will attest the full powers of the Japanese delegates to the peace conference and will give an audience to the delegates prior to their departure. The government, however, is reluctant to include among the delegates a person close to the Imperial Household, so that the Emperor will not become involved in an essentially political matter.
- [redacted]
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Comment: Association of the Emperor in some way with the treaty is considered desirable, particularly by the UK, in order to give added assurance of Japanese adherence to the terms of the treaty. The Emperor's approval will likewise have a salutary effect on Japanese public opinion toward the treaty.

SECTION 3 (WESTERN)

7. FRANCE. French Foreign Office critical of Acheson proposals: The French Foreign Office has tentative reservations on the speedy solution proposed for the problem of German rearmament in the recent personal letter from Secretary of State Acheson to Foreign Minister Schuman. While the French admit that simultaneous settlement of both political and military aspects of the problem is logical and desirable, they believe that full unconditional

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political equality cannot be granted to the Bonn Government lest the Germans subsequently "find a way to welch" on making a defense contribution.

The Foreign Office thinks also that public and political opinion is not yet prepared for such an "extreme" idea as German membership in NATO, and fears that the proposal to discuss this point in September may arouse French opposition to other features of German rearmament. [REDACTED]

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Comment: The basic French premise is that the political arrangement with the Federal Republic will not take the form of inter-governmental agreements, but rather of a contract between HICOM, the Supreme authority in Germany, and the Bonn Government. The recent German unilateral action increasing the export price on Ruhr coal, as well as the stiff bargaining position generally adopted by the Germans, is making the French Government increasingly wary of further concessions to Germany.

8. NETHERLANDS. Dutch hostile toward US interference in productivity program: Dutch reaction has been "violent" to the US suggestion that as a condition for aid the US agencies concerned have a voice in the distribution of productivity benefits among Dutch economic interests. The Dutch have pointed out that this plan would constitute political as well as economic intervention in their domestic affairs. The Netherlands Government, already sensitive to labor's demands, agrees that there is no question that labor especially should obtain a substantial and equitable share of these benefits. [REDACTED]

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Comment: The Netherlands' status as a small nation makes it increasingly fearful of US domination on the continent and of the loss of its voice in world affairs. Introduction of a system which the Dutch consider interference in their internal affairs may hamper implementation of the defense effort and can be expected to make Dutch cooperation in US policies more difficult to obtain.

9. UNITED KINGDOM. Foreign Office expects Soviet propaganda effort at San Francisco Conference: The UK Foreign Office expects the Soviet Union to attempt to use the San Francisco Conference on the Japanese peace treaty as a propaganda rostrum in order to persuade or frighten some participants into refusing to sign. The Foreign Office suggests that the best Allied reply to the Soviet announcement might be an expression of sentiments welcoming the USSR's participation with a pointed reiteration of the sole purpose of the conference -- to sign the treaty-- and a reminder that all parties, including the Soviet Union, have had ample opportunity to study the draft treaty and negotiate changes. [REDACTED]

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